

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-019
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Cynthia Parsell, CPA
Marinette Babida
Pamela Vallergera

Audit Chief
Assistant Audit Chief
Audit Manager
Auditor
Auditor

AUDIT REPORT NUMBER

#08-019

21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Larry Serpa, President
Board of Directors
21st DAA, The Big Fresno Fair
1121 S. Chance Avenue
Fresno, CA 93702-3707

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 21st District Agricultural Association (DAA), The Big Fresno Fair, Fresno, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 21st DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

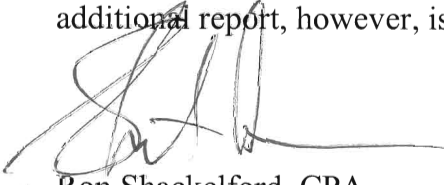
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 21st DAA, The Big Fresno Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in net resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 21st DAA, The Big Fresno Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-019, on the 21st DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 21st DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.



For Ron Shackelford, CPA
Chief, Audit Office

May 9, 2008

**21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA**

**STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006**

	Account Number	2007	2006
ASSETS			
Cash and Cash Equivalents	111-117	\$ 4,449,922	\$ 4,095,442
Accounts Receivable, Net	131 - 133	594,367	815,594
Construction In Progress	190	-	71,825
Land	191	244,077	244,077
Equipment, Net	193	152,659	107,803
Leasehold Improvements, Net	194	10,459,531	5,123,165
TOTAL ASSETS		<u>15,900,556</u>	<u>10,457,906</u>
LIABILITIES AND NET RESOURCES			
Liabilities			
Accounts Payable & Other Liabilities	212, 221-226	457,505	345,042
Current Portion of LT Debt	212.5	135,129	126,893
Deferred Income	228	224,015	67,109
Guarantee Deposits	241	43,010	29,054
Unclaimed Check Liability	242	-	29,061
Compensated Absences Liability	245	327,424	295,193
Long Term Debt	250	2,044,964	192,195
Total Liabilities		<u>3,232,047</u>	<u>1,084,547</u>
Net Resources			
Reserve for Junior Livestock Auction	251	61,545	37,657
Net Resources - Operations	291	3,795,661	4,107,919
Net Resources - Capital Assets less Debt	291.1	8,811,303	5,227,783
Total Net Resources Available		<u>12,668,509</u>	<u>9,373,359</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 15,900,556</u>	<u>\$ 10,457,906</u>

**21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006

	Account Number	2007	2006
REVENUE			
State Apportionments	312	\$ 35,000	\$ 35,000
Other Project Funds	318	145,028	-
Capital Project Reimbursement	319	3,150,407	109,775
Admissions	410	2,105,472	2,207,752
Commercial Space	415	302,755	298,003
Carnival	421	1,300,000	1,250,000
Concessions	422	1,155,530	1,178,129
Exhibits	430	34,007	33,518
Horse Racing- Fairtime Pari-Mutuel	450	1,166,938	1,087,250
Horse Racing- Satellite Wagering	450.5	521,291	740,021
Miscellaneous Fair	470	2,093,565	1,770,400
JLA Revenue	476	68,959	13,674
Non-Fair Revenue	480	1,109,694	1,105,817
Prior Year Adjustment	490	(138,090)	115,091
Other Revenue	495	182,977	159,872
Total Revenue		<u>13,233,533</u>	<u>10,104,302</u>
EXPENSES			
Administration	500	1,555,444	1,346,391
Maintenance and Operations	520	1,429,812	1,560,974
Publicity	540	846,307	706,773
Attendance	560	1,177,360	1,069,359
Miscellaneous Fair	570	53,965	62,104
Junior Livestock Auction Expense	576	45,071	-
Premiums	580	177,643	170,017
Exhibits	630	533,425	471,688
Horse Racing- Fairtime Pari-Mutuel	650	1,049,553	993,636
Horse Racing- Satellite Wagering	650.5	645,725	754,886
Attractions - Fairtime	660	1,871,529	1,387,114
Motorized Racing	660.9	-	210,547
Equipment	723	22,960	3,205
Prior Year Adjustments	800	15,227	63,708
Cash Over/Short from Ticket Sales	850	9,035	1,193
Depreciation Expense	900	489,556	291,688
Other Resources Applied	930	-	54
Other Operating Expenses	945	15,771	14,494
Total Expenses		<u>9,938,383</u>	<u>9,107,831</u>
RESOURCES			
Net Change - Income / (Loss)		3,295,150	996,471
Resources Available, January 1		9,373,359	8,376,888
Resources Available, December 31		<u>\$ 12,668,509</u>	<u>\$ 9,373,359</u>

**21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA**

STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses	\$ 3,295,150	\$ 996,471
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	221,227	(631,619)
Increase (Decrease) in Accounts Payable and Other Liabilities	112,462	255,512
Increase (Decrease) in Current Portion of Long Term Debt	8,236	7,794
Increase (Decrease) in Deferred Income	156,906	(204,188)
Increase (Decrease) in Unclaimed Check Liability	(29,061)	29,061
Increase (Decrease) in Guarantee Deposits	13,956	(2,706)
Increase (Decrease) in Compensated Absences Liability	32,231	16,627
Total Adjustments	<u>515,957</u>	<u>(529,519)</u>
Net Cash Provided (Used) by Operating Activities	<u>3,811,107</u>	<u>466,952</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) Decrease in Construction In Progress	71,825	(71,825)
(Increase) Decrease in Leasehold Improvements	(5,336,366)	(178,633)
(Increase) Decrease in Equipment	<u>(44,856)</u>	<u>(28,985)</u>
Net Cash Provided (Used) by Investing Activities	<u>(5,309,397)</u>	<u>(279,443)</u>
 Increase (Decrease) in Long Term Debt	 <u>1,852,769</u>	 <u>(127,129)</u>
Net Cash Provided (Used) by Financing Activities	<u>1,852,769</u>	<u>(127,129)</u>
NET INCREASE (DECREASE) IN CASH	354,480	60,379
Cash at Beginning of Year	4,095,442	4,035,063
CASH AT END OF YEAR	<u><u>\$ 4,449,922</u></u>	<u><u>\$ 4,095,442</u></u>

**21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 21st District Agricultural Association (DAA) was formed on August 9, 1934, for the purpose of sponsoring, managing, and conducting The Big Fresno Fair each year in Fresno, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Property and Equipment - Construction-in-progress, land, leasehold improvements, and equipment are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and fully depreciated. Leasehold improvement costs are depreciated over thirty years and include additions, alterations, remodeling, or renovations performed on leased property, which upon termination of a lease, generally become the property of the owner (lessor) without any cost or obligation. All leasehold improvements recorded by the Fair are improvements made on the land leased from the County of Fresno. Equipment costs are depreciated over five years and amounts spent on repair and maintenance costs are expensed as incurred. Furthermore, donated leasehold improvements and equipment are recorded at fair market value on the date of the gift. This recorded basis is depreciated over the useful lives identified above. Funds spent on capital projects not yet been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation recorded until the project is complete and the asset placed in service. In 2001, the Fair obtained a \$1,000,000 loan from the County Bank

for a Long-Term construction Project. This project is fully discussed in Note 5 below.

Sales Taxes – The State of California imposes a sales tax of 7.975% on all of the DAA's sales of merchandise. The DAA collects that sales tax from customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 100	\$ 100
Change Funds	82,700	101,941
Cash in Bank - Operating	151,791	(125,807)
Cash in Bank - Premium	0	0
Cash in Bank - Payroll	1,162	738
Cash in Bank – JLA	50,381	37,657
Cash – LAIF	31,122	29,575
Cash – Savings	4,132,666	4,051,238
	<u> </u>	<u> </u>
Total Cash and Cash Equivalents	<u>\$ 4,449,922</u>	<u>\$ 4,095,442</u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 687,218	\$ 871,929
Accounts Receivable – Credit Card	0	13,709
Allowance for Doubtful Accounts	(92,851)	(70,044)
	<u> </u>	<u> </u>
Accounts Receivable - Net	<u>\$ 594,367</u>	<u>\$ 815,594</u>

NOTE 4 PROPERTY AND EQUIPMENT

Leasehold improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	2007	2006
Leasehold Improvements	\$ 22,218,567	\$ 16,443,562
Less: Accumulated Depreciation	<u>(11,759,036)</u>	<u>(11,320,397)</u>
Leasehold Improvements - Net	<u>\$ 10,459,531</u>	<u>\$ 5,123,165</u>
 Equipment	 \$ 428,152	 \$ 335,902
Less: Accumulated Depreciation	<u>(275,492)</u>	<u>(228,098)</u>
Equipment - Net	<u>\$ 152,660</u>	<u>\$ 107,804</u>

NOTE 5 LONG-TERM DEBT

The 21st DAA has entered into an agreement with California Construction Authority (CCA) to install the Photovoltaic power-generating project on the fairgrounds. In July 2007, CCA completed the Photovoltaic project, and the DAA recognized the long term debt of \$1,988,052 based on the CCA closed project report. The preliminary estimate by CCA of the amount financed was \$2,585,592; however, the final financing terms were not available since CCA has not completed the financing arrangements.

Furthermore, in June 2001, the 21st DAA obtained a loan for \$1,000,000 from County Bank for a long-term construction project associated with the fairgrounds. As of December 31, 2007, the DAA has an outstanding liability balance of \$179,324. The terms of the agreement are as follows:

County Bank

Loan Amount	\$ 1,000,000
First Payment Date	July 2001
Duration of Loan	10 Years
Interest Rate	6.02%
Payment Amount	\$ 11,156
 Total Outstanding at 12/31/07	 \$ 179,324
 Current Year Liability	 \$ 126,326
Long-Term Portion	\$ 52,998

In April 2004, the 21st DAA entered into two long-term capital lease agreements for office equipment with the International Corporation. The terms of the agreements are as follows:

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Loan Amount	\$ 14,501
First Payment Date	June 2004
Duration of Loan	5 Years
Interest Rate	9.25%
Payment Amount	\$ 304
Total Outstanding at 12/31/07	\$ 4,827
Current Year Liability	\$ 3,341
Long-Term Portion	\$ 1,486

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Loan Amount	\$ 23,803
First Payment Date	June 2004
Duration of Loan	5 Years
Interest Rate	9.25%
Monthly Payment	\$ 497
Total Outstanding at 12/31/07	\$ 7,891
Current Year Liability	\$ 5,462
Long-Term Portion	\$ 2,429

NOTE 6**RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two

years of retirement savings (five percent of paycheck amount each month) in lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7

RECLASSIFICATION

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 21st DAA Board of Directors
1	Chief Executive Officer, 21st DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE
AUDIT OFFICE



21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA

MANAGEMENT REPORT #08-019

YEAR ENDED DECEMBER 31, 2007

21ST DISTRICT AGRICULTURAL ASSOCIATION
THE BIG FRESNO FAIR
FRESNO, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Cynthia Parsell, CPA
Marinette Babida
Pamela Vallergera

Audit Chief
Assistant Audit Chief
Audit Manager
Auditor
Auditor

MANAGEMENT REPORT NUMBER
08-019

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Mr. Larry Serpa, President
Board of Directors
21st DAA, The Big Fresno Fair
1121 So. Chance Avenue
Fresno, CA 93702-3707

In planning and performing our audit of the financial statements of the 21st District Agricultural Association (DAA), The Big Fresno Fair, Fresno, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by The Big Fresno Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 21st DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 21st DAA's assets. The system of internal control should provide the



Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 21st DAA in a timely manner during the normal course of operations. In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 21st DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 21st DAA's accounting procedures, records, and substantiating documents.

During our review of the internal control structure of the 21st DAA and compliance with State laws and regulations, we identified 12 areas with reportable conditions that are considered weaknesses in the Fair's operations: lack of internal control for the swap meet, accounting for fixed assets, cash accounts, general ledger accounting, accounts receivable, standard agreements, accounting for food and beverage expenditures, automated teller machines, general expenditures, junior livestock auction, personnel procedures, and courtesy and credential pass admissions. We have provided 30 recommendations to improve the operations of the Fair. The Fair must respond in writing on how each recommendation will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 21st DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

LACK OF INTERNAL CONTROLS FOR THE SWAP MEET

During our audit, our office became aware of a Fresno County Sheriff Department's investigation that began in 2005. The Sheriff's report alleges that the Swap Meet Contractor for the Big Fresno Flea Market was underreporting the gross revenues earned from operations.

According to the investigation reports, the Swap Meet Contractor underreported amounts earned for both vendor booth spaces and parking on the summary reports provided to the Fair. In 2005/06, the investigative report stated that it appeared the swap meet coordinator was underreporting the amount of vendor tickets that were being sold in order to lower the amount of money owed to the Fair. Also, in 2007, the investigation estimated that the Swap Meet Contractor underreported an approximate total of \$12,000 in gross revenues, resulting in an approximate \$4,200 loss to the Fair for those three weekends in which the investigation took place.

During our audit of the Fair's 2007 financial records, we noted the following deficiencies regarding swap meet activities:

- a. The weekly settlement sheets received from the Swap Meet Contractor were not signed or reviewed to confirm the accuracy of the amounts reported. For two of the twelve months examined, the Fair had no weekly ticket sellers' reports to support the amounts shown on the monthly summary sheets. Although the Fair has the contractual right to examine the Swap Meet Contractor's records to establish validity of the reported amounts, the Fair has not appeared to have exercised its right. Amounts reported to the Fair as its portion of gross revenues on the monthly summary sheets were entered into the Fair's general ledger without first establishing the accuracy. According to the Accounting Procedures Manual (APM), Section II, 1.0, the Fair should emphasize monitoring and controlling ticket sales, whether the operation is managed by the Fair or by an outside contractor. Per the APM, the Fair should have a documented system of procedures in place which, among other proper control practices, includes controls on ticket inventories issued to sellers and reconciliation of daily sales to the summary reports.
- b. The Fair did not maintain control over any of the ticket stock used by the Swap Meet Contractor for tracking parking revenue or booth space rentals. The Fair did not perform a beginning or ending inventory of the ticket stock to verify that the amounts shown for gross sales on the ticket sellers' reports reliably represented the amounts sold. Additionally, the ticket stock used by the Swap Meet Contractor had no prices pre-printed; the amounts charged for the various tickets were stamped by hand by the person selling the ticket. Per APM, Section II, 1.31, one of the minimum requirements for admissions tickets of any type, including parking and vendor space, is that the ticket price be printed on each ticket. The lapse in controls caused by the lack of inventoried, pre-priced tickets exposed the Fair to substantial loss of revenues

and allowed for the opportunity for misstatement of gross revenue amounts from swap meet activities.

- c. No signed copy of the current, amended contract between the Fair and its Swap Meet Contractor was on file. Additionally, as of the end of fieldwork date, the amended contract has not been approved by the Division of Fairs and Expositions (F&E). Contract FE-94-00011, as amended, which represents a fifteen-year commitment to the Swap Meet Contractor and is scheduled to end in 2009, far exceeds the limitation set by F&E for long-term revenue contracts. F&E's Contract Manual limits long-term revenue contracts to a maximum of five years and, during that period of time, the Fair is required to make annual performance evaluations of the contractor to establish the basis for extending the contract into the next year.
- d. The Fair did not adhere to the terms of its swap meet contract with regards to making repairs to the Butler Parking Lot and surrounding structures. The contract has a clause that requires a portion of the swap meet rent to be allocated to an improvement fund. Per contract specifications, this liability account is supposed to be capped at \$30,000, and when the account reaches that amount the funds are to be expended for improvements; however, the current general ledger balance for this fund is over \$60,000. Per discussion with the Fair's CEO, the parties to the contract intend to change the terms to allow the fund to grow to a more substantial level to keep in line with rising costs of making improvements. Per F&E's Standard Contract Terms and Conditions, contract modifications, when allowable, may be made by formal amendment only. A change to the contract of such a nature requires either a new written agreement or an amendment to the existing agreement, either of which should be signed and approved by the necessary parties.
- e. The Fair's general ledger listed an item for capital improvements on behalf of the swap meet. The total for this account was \$5,322. Although the Fair maintains an account to fund parking lot improvements on behalf of the swap meet, the Fair did not charge the improvements made during 2007 to that account. Since the Fair is contractually required to make these improvements and carry the liability, as noted above in d., the Fair should properly track the amounts it has spent on behalf of the swap meet for these purposes.

Recommendations

1. *The Fair should consult with the State Attorney General's Office for its options in handling the investigations performed by the Sheriff's Office. Due to the large amount of revenue of this type of contract, the Fair may want to consider competitively bidding this contract.*
2. *To ensure that the Fair receives the total amount it is due, the Fair should maintain proper accountability for its revenues from its Swap Meet Contractor. This requires that the Fair develop a written system of procedural controls, including custody and inventory of the tickets used to determine the Fair's percentage of sales from parking admissions and commercial space rentals. Ticket seller report amounts should be verified, and both*

the Fair and the Swap Meet Contractor should sign to attest to the review and accuracy of the amounts reported.

- 3. As stated in the APM, the Fair should require the Swap Meet Contractor to use pre-priced tickets for which the Fair both maintains beginning and ending inventories and controls the issuance for use.*
- 4. When entering into long-term revenue contracts, the Fair should adhere to F&E's requirements with regard to length of contract, obtaining proper bids, and obtaining proper approvals. The Fair should establish a current, valid, written contract with its Swap Meet Contractor, signed by both parties to ensure there is no confusion about the terms of the agreement made by both parties. The Fair should submit the swap meet contract to F&E for review and approval as required by F&E for long-term revenue contracts. Additionally, the Fair should prepare an annual performance evaluation of its contractor to establish whether it is in the best interest of the Fair to extend the contract into the next year.*
- 5. The Fair should adhere to the terms of a contract. Should it be determined that specifications of a contract are no longer current or applicable, the parties to the contract should amend the contract to reflect the subsequent update in terms.*
- 6. The Fair should track improvements to Butler parking lot and the surrounding structures made on behalf of the swap meet. The Fair should charge the expenses to the fund it has established for these purposes. Because of specific, contractual obligations, it is important that the Fair properly account for these improvements to demonstrate that those obligations are being met by both the Fair and the Swap Meet Contractor.*

COURTESY AND CREDENTIAL PASS ADMISSIONS

The Fair exceeded the maximum allowable rate of courtesy admission passes. In 2007, courtesy passes exceeded 16.6% of the preceding year's gross paid admissions, well above the 4% limitation. According to the California Food and Agricultural Code, Section 3026, "The percentage of courtesy pass admissions to any state, county, district, or citrus fruit fair shall not exceed 4% of the gross paid admission to the fair in the preceding calendar year." The Fair should be cautioned that excessive distributions of this nature may be deemed an inappropriate use of public funds. This was a prior year finding.

Furthermore, the Fair's courtesy and credential pass logs were not detailed enough to support the business purpose and necessity of issuing the passes. For the courtesy passes, the log did not clearly track all of the recipients of the passes nor mention the business purpose justification for issuing the passes. For the credential admissions, several sequential ticket numbers were issued under the name of Fair employees rather than the name of the credentialed recipient of the ticket.

Recommendations

- 7. The Fair should review and improve its policy for the issuance of courtesy passes to ensure the 4% limitation specified within the Food and Agriculture Code is not exceeded.*

8. *The Fair should strengthen its controls over the issuance of courtesy and credential passes. Detailed logs should show specifically to whom the passes were issued and adequately support the business necessity of issuing the passes.*

ACCOUNTING FOR FIXED ASSETS

A review of the fixed asset accounts revealed the following deficiencies:

- a. Account #194, Leasehold Improvements, and its related accumulated depreciation, Account #194.1, were both understated at year-end 2007. During 2007, installation of the Fair's photovoltaic system was completed, and the system was placed into service. However, the Fair failed to capitalize the total cost related to its photovoltaic project and, as a result, the general ledger and property ledger were understated by approximately \$4,418,141. In addition to the photovoltaic project, the Fair had further leasehold improvement costs totaling \$517,461 that were not capitalized during 2007. The total understatements to Account #194, Leasehold Improvements, and Account #194.1, Accumulated Depreciation – Leasehold Improvements, were \$4,935,602 and \$165,262, respectively.
- b. Account #193, Equipment, and its related accumulated depreciation, Account #193.1, were both understated at year-end 2007. The Fair did not capitalize equipment totaling \$21,895, which met the Department of Finance's (DOF) capitalization criteria. According to the criteria, fixed assets used to conduct State business that cost greater than \$5,000 and have a useful life of greater than a year should be capitalized. Additionally, due to the equipment not being properly capitalized in Account #193, the related accumulated depreciation, Account #193.1, was understated by \$4,380.

Recommendations

9. *The Fair should ensure that the amounts capitalized for a project represent the full costs associated with placing the asset into service. The Fair should properly track all costs associated with a project in order to establish the full amount that should be capitalized once the project is complete. By ensuring that the correct amounts are capitalized for project costs, the Fair should be able to accurately calculate the related depreciation of the project as well.*
10. *The Fair should adhere to the Department of Finance's regulations by capitalizing all items of equipment that meet the capitalization criteria of a cost greater than \$5,000 and a useful life of greater than a year.*

CASH ACCOUNTS

A review of the cash accounts revealed the following deficiencies:

- a. The Fair did not establish a proper cut-off date for its operating cash account. A total of \$270,361 in checks were written in January and backdated to the prior period. The practice of backdating cash instruments is a departure from Generally Accepted Accounting Principles (GAAP), as it does not provide an accurate report of cash as of

the year-end cut-off date. Since the payments were made in January and were outstanding as of year-end 2007, the \$270,361 should have been listed as accounts payable. The operating account, at December 31, 2007, should not have reflected those amounts as paid. As a result of the backdating, Account #113, Operating Cash, and Account #212, Accounts Payable, were both understated at year-end 2007.

- b. The Fair did not always prepare the bank reconciliations for its cash accounts in a timely manner. Additionally, the reconciliations were not always signed and dated by the preparer, and the reconciliation did not always have an approval signature of the person reviewing the reconciliation for accuracy. On average, approximately half of the bank reconciliations of the Fair's cash accounts were performed in excess of thirty days past the end of the month. Per State Administrative Manual (SAM) Section 7901, all reconciliations should be performed monthly, within thirty days of the preceding month. Also, SAM Section 7908 states that all reconciliations will show the preparer's name, the reviewer's name, the date prepared, and the date reviewed.
- c. The Fair has approximately \$25,683 in checks from its various cash accounts that have been outstanding for greater than a year. According to SAM Section 8042, uncashed checks for over one year can be reverted back to the appropriate cash accounts. Listing and tracking outstanding checks for more than one year complicates the reconciliation process and increases the chances for errors.

Recommendations

- 11. The Fair should follow GAAP by adhering to a year-end cut-off date and refraining from backdating checks into a prior accounting period. Checks should be recorded in the period they are issued, and amounts that are outstanding payables at year-end should be reflected as such.*
- 12. To safeguard its cash appropriately, the Fair should follow the requirements of SAM for its bank reconciliations. Bank reconciliations should be prepared within thirty days of the preceding month and should include the preparer's name, the reviewer's name, the date prepared, and the date reviewed.*
- 13. To facilitate preparation of its reconciliations, the Fair should comply with SAM and revert checks that have been outstanding for greater than a year back to the appropriate cash account.*

GENERAL LEDGER ACCOUNTING

The general ledger showed the following accounting inaccuracies:

- a. Six out of twelve payroll liability accounts have debit balances. Liability accounts should have credit balances rather than debit balances. Debit balances in a liability account likely denote either an error in posting or an overpayment of the liability has occurred. The amounts should always be researched and corrected prior to closing the books at year-end.

- b. The Fair received a check from the State of California Waste Management for approximately \$384,367. Rather than appropriately recognizing the amount as revenue, the Fair netted the amount against its expense accounts. GAAP requires that the full amounts for revenues and expenditures be recognized rather than netted, since netting the amounts understates both revenues and expenses and obscures the accounting transparency of the amounts involved.
- c. The Fair received a check from the City of Fresno for approximately \$129,258, but recognized only \$100,990 of the amount as revenue. The Fair recorded the remaining \$28,268 as various credits against expense accounts. As noted above, such a practice does not adhere to the requirements of GAAP for reporting revenues and expenses.

Recommendations

- 14. The Fair should ensure that its general ledger liability accounts have proper credit balances at year-end. Any liability account that shows a debit balance should be researched and corrected prior to closing the books at year-end.*
- 15. The Fair should follow GAAP and recognize its full amounts of revenues and expenses rather than netting the amounts. Full recognition of revenues and expenses provides a more transparent, more accurate depiction of the accounting transactions involved.*

ACCOUNTS RECEIVABLE

A review of the accounts receivable revealed the following deficiencies:

- a. The Fair has receivables dating from 2003 through 2006, totaling approximately \$46,983, which have been deemed uncollectible but have not yet had an allowance established for them. Although the fair has already established an allowance for doubtful accounts for amounts outstanding prior to 2002, the Fair should establish an allowance for all receivables it has determined to be uncollectible in order to present a more accurate representation of its receivable assets
- b. The Fair has a receivable account for credit card sales, Account #132, Accounts Receivable for Credit Cards, that showed a credit balance of \$8,056 at year-end 2007. Asset accounts, such as receivables, should show a debit balance rather than a credit balance. Since Account #132 shows a credit balance at year-end 2007, it is possible an error occurred in tracking and accounting for the amounts recorded in the general ledger for the account. Credit balances in asset accounts should always be researched and corrected prior to closing the books at year-end.
- c. The Fair has a total of \$1,035 in uncollectible amounts that are individually less than \$250. Per APM, Section I, 2.453, the Fair may write-off amounts up to \$250 with Board approval. For the amounts greater than \$250, for which all means of collection have been exhausted, the Fair should submit a Standard Form 27, Discharge from Accountability, to F&E for approval to remove the bad debts.

Recommendations

16. *In order to more fairly represent its accounts receivable, the Fair should establish an allowance for doubtful accounts for the receivables from 2003-2006 that have been deemed likely to be uncollectible.*
17. *The Fair should ensure that its general ledger accounts for receivables have proper debit balances at year-end. Any asset account, such as accounts receivable, that shows a credit balance at year-end should be researched and corrected prior to closing the books for the year.*
18. *For the amounts for which the Fair has exhausted all means of attempting collection, the Fair should seek its Board's approval to discharge items less than \$250. For items greater than \$250, the Fair should submit a Standard 27, Discharge from Accountability, to F&E for approval to remove the bad debts.*

STANDARD AGREEMENTS

A review of the standard agreements revealed the following deficiencies:

- a. The Fair did not always obtain approval for multi-year standard agreements or any standard agreements exceeding \$75,000 from F&E prior to the execution of the agreement. According to F&E's Contracts Manual Section 1.5, Contract Review and Approval, all Fairs are required to obtain approval from F&E for (i) any multi-year agreements entered into, and (ii) all contracts exceeding \$75,000. Based on our review, we noted seven instances of multi-year agreements meeting Section 1.5 guidelines without F&E's approval.
- b. The standard agreement with the sponsorship contractor has not been approved by F&E. The Fair entered into a standard agreement with a sponsorship contractor in 2005 with a two successive period option. According to the agreement, from 2005 to 2007, the contractor received monthly payments from January to September ranging from \$5,778 to \$6,222, expense reimbursement of \$4,000 to \$6,000, and 20% commission of the gross sponsorship cash value in excess of the agreed amount for that year. For 2007, the contractor received \$133,032. When the total agreement amount exceeds \$75,000 and it is a multi-year agreement, F&E's approval is required. This was a prior year finding.
- c. The Fair did not obtain bids for a standard agreement. We noted the Fair did not secure any bids for the 2007 agreement for the entertainment coordinator totaling \$34,000. According to the Contract Manual Section 2, Contracts Exempt from Bidding, entertainment coordinator/directors are not exempt from bidding only the entertainment itself. In addition, according to Public Contract Code (PCC) Section 10335 and Contract Manual Section 2.05, Bidding Requirements, contracts over \$5,000 must be either formally bid or awarded using the Alternative Bid Process.
- d. The Fair did not notify F&E in writing for any sponsorship agreements meeting the sponsorship contract requirements. The Food and Agriculture Code section 4051.1 states, "written notification to the department shall be required ... prior to entering

into any agreement ... if the agreement exceeds \$100,000 in value, exists for a period of greater than two years or contemplates the building of new permanent structures.” The Fair is required to obtain an approval from F&E prior to entering and the execution of the agreement.

- e. The Fair cashed entertainer’s checks totaling \$15,000, which is prohibited practice according to the SAM Section 8032.4. According to SAM Section 8032.4, Coin and Currency, “agencies will not disburse or withhold receipts for the purposes of establishing or augmenting an over-the-counter change fund ... agencies will also not use receipts to be deposited to cash checks”.

Recommendations

19. *The Fair should comply with F&E’s Contracts Manual Section 1.5 by ensuring F&E approval is received for all multi-year agreements and all agreements amount over \$75,000.*
20. *The Fair should obtain bids for any contracts over \$5,000 in compliance with PCC Section 10335 and Contract Manual Section 2.05.*
21. *The Fair should ensure it notifies F&E in writing for any sponsorship agreements meeting the guidelines under the Food and Agriculture Code section 4051.1.*
22. *The Fair should comply with SAM Section 8032.4 and ensure all cash receipts are deposited intact. The Fair should not use daily receipts or their change fund to cash any checks.*

ACCOUNTING FOR FOOD AND BEVERAGE EXPENDITURES

The Fair did not justify and support the business purpose and necessity for discretionary expenditures totaling approximately \$15,288 provided to board members and their guests during the fair. Although the Fair did specify the recipients’ names, the Fair did not indicate the business purpose for incurring the expenditures; nor did the Fair justify the expenditures by specifying the topics discussed or the benefits expected to accrue to the Fair. This information is required by Section 2.85 and 2.86 of the APM to adequately support food & beverage expenditures for public relations or promotional purposes. All claims must include the names of all recipients of the item or benefit, purpose of the expenditure, justification for providing food or a meal, specifying the topics discussed during the event, and the necessity of or the benefits expected to accrue to the Fair by entertaining. This was a prior year finding.

Recommendation

23. *The Fair should ensure food & beverage expenditures are properly justified and documented in accordance to APM Section 2.85 and 2.86 prior to processing of payments.*

AUTOMATED TELLER MACHINES

The Fair acquired six automated teller machines (ATMs), four in 2004 totaling \$13,348 and two in 2005 totaling \$11,229. According to the Fair's property ledger, the Fair capitalized the two ATMs purchased in 2005. The other four did not meet the capitalization criteria; however we noted that the Fair did not identify these ATMs as their own by marking them with a property ID tag. Instead, it appears that the four ATMs purchased in 2004 are being claimed as property of Friends of the Fresno District Fair (FFDF), a 501(c)(3), non-profit corporation.

In addition, we noted the revenue for ATM transactions is allocated between the Fair and FFDF. However, there is no written agreement indicating the terms of the agreement. According to the Fair, the revenue allocation is based on the ratio of the number of ATMs owned by each entity. In this instance, the allocation is 1/3 or two out of six for the Fair and 2/3 or four out of six for FFDF. Although we noted that the Fair utilizes more than two ATMs year round, FFDF only received the allocation during fairtime. In 2007, FFDF received approximately \$9,758 for ATM revenue. Since it does not appear FFDF reimbursed the Fair for the four ATMs, as mentioned above, all six ATMs are the Fair's property; therefore, the ATM revenue should not have been allocated to FFDF under the ratios assuming that the ATMs are theirs. If the Fair intends to allocate the ATM revenues to FFDF, then it would be beneficial for the Fair to have this in a formal written agreement so both parties know what is expected of each other.

Recommendations

24. *The Fair should identify the four ATMs as property of the State. If the FFDF purchased these ATMs from the Fair, then supporting documentation should be on file for our review. The Fair cannot gift the ATMs to the FFDF.*
25. *The Fair should establish a lease agreement for any rental of ATMs to stipulate the terms of the lease and revenue allocation.*

GENERAL EXPENDITURES

The Fair did not file the required Standard Form 270, Vehicle Accident Report, to Department of General Services (DGS) within 48 hours of an accident. In June 2007, a Fair employee was in an accident with a state vehicle, which resulted in \$3,088 for the repair of the other party's vehicle. The expense should have been covered by the Fair's vehicle insurance with DGS; however, according to the Fair, the Standard Form 270 was not mailed to DGS at the time of accident because the employee involved with the accident did not complete the form until early 2008 and no Standard Form 270 was submitted to DGS to date.

Recommendation

26. *The Fair should notify the DGS of this accident immediately. The Fair should complete and file the required form to DGS within 48 hours of any accident involving a state car, so any expense incurred will be paid through the Fair's vehicle insurance with DGS. In addition, the Fair should try to seek reimbursement from DGS for the expenses incurred.*

JUNIOR LIVESTOCK AUCTION

A review of the accounting for Junior Livestock Auction (JLA) revealed the following discrepancies:

- a. The Fair does not properly track its outstanding receivables from its JLA activities. Amounts that should have been established as receivables were listed on the JLA cash bank reconciliations as outstanding deposits. For instance, \$11,230 is listed on the JLA bank reconciliation as deposits in transit from 2002, 2003, and 2007 when in fact for 2007 we noted a total of \$10,046 is from outstanding receivables. Furthermore, some of these receivables have questionable collectibility.
- b. The Fair made direct journal entries into account #251, Reserve for JLA. Only closing entries should be posted to the reserve account. There was no documentation or audit trail to substantiate the entries made. Furthermore, the Fair closed its JLA revenue and expenditure accounts prior to printing the pre-closing trial balance; the amounts directly entered into Account #251 do not agree to the amounts reported for JLA revenues and expenditures by the Fair on its 2007 Statement of Operations.

Recommendations

27. *The Fair should establish proper receivables for outstanding amounts from its JLA activities. An allowance account should be established for amounts that have questionable collectibility.*
28. *The Fair should endeavor to maintain a proper audit trail for its revenues and expenditures from JLA activities. Only closing entries should be posted to Account #251, Reserve for JLA, and the pre-closing trial balance should accurately reflect the reported amounts for JLA revenues and expenditures and should be printed prior to the accounts being closed.*

PERSONNEL PROCEDURES

Based on our examination of the Fair's payroll records, we noted the Fair allowed three employees to exceed the maximum leave accrual of 640 hours for vacation or annual leave. These employees had leave balances of 1,441, 1,135, and, 710 hours at year-end. The Department of Personnel Administration limits the amount of hours that permanent employees may carry-over to the following calendar year to a maximum of 640 hours. This was a prior year audit finding.

Moreover, the Fair allowed two temporary employees to work in excess of the 119 Day limitation. These two employees worked 266 and 244 days during 2007, which could result in the employee not being exempt from civil service. According to the Constitution of the State of California, Article VII, Section 4(l), officers and employees of district agricultural associations employed less than six months in a calendar year are exempt from civil service. Temporary employees are not covered by civil service laws; therefore, temporary employees working six months or more in a calendar year may not be exempt from civil service law. Six months equates to 120 days considering a five-day work week regardless of the number

of hours worked in a day. Furthermore, the APM states that temporary employees may not work more than 119 days in a calendar year. This was a prior year finding

Recommendations

29. *The Fair should ensure that permanent employees do not carryover accrued leave hours in excess of 640 hours. The Fair should encourage employees with excess balances to take time off, thereby reducing their accumulated leave balances.*
30. *The Fair should comply with the Constitution of the State of California and ensure that temporary employees do not work in excess of six months in a calendar year to remain exempt. In addition, the Fair should comply with the APM and not allow any temporary employee to work in excess of 119 days in a calendar year.*

NON-REPORTABLE CONDITIONS

PURCHASING PROCEDURES

The Fair made opportunity purchases during 2007; however, the Fair does not always document that opportunity purchases meet or beat the State price. Opportunity purchases allow the DAAs to purchase commodities from any source provided it meets or beats that available through the state-purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of actual price information or exemption justification when necessary. Merely stating the local price was equivalent to or less than that available through the state-purchasing program does not sufficiently meet the documenting criteria. This was a prior year audit finding.

Moreover, the Fair did not submit any purchase orders (PO) above the Fair's delegated purchasing authority threshold of \$50,000 to DGS for approval. According to Purchasing Authority Manual Section 1.3.4, Exceeding Purchasing Authority Thresholds, any transaction that exceeds or is expected to exceed a department's purchasing authority, by type, category or dollar threshold, must be submitted to DGS on Standard Form 66, Purchase Estimate for non-IT and IT goods and by memo for IT services. Based on our review of the purchase order log and respective supporting POs, we noted various POs that exceeded the Fair's authority threshold, specifically POs that relate to the fairgrounds improvements for 2007.

Furthermore, the Fair did not use the proper form for the expenses related to services. Based on our review, we noted the Fair incorrectly used a PO instead of standard agreement for the website redesign and fairground improvements services. According to F&E's Purchasing Manual Section XI, Service and Rental Transactions, "transactions with minimal or no liability exposure can be completed on a purchase order". Based on our review, we have determined that services do not have a minimal liability exposure, thus the standard agreement form 210 or 213 should have been used depending on the amount of expense incurred. Since the Fair did not use the proper form, this could lead to potential circumvention of state rules.

Recommendations

The Fair should follow the proper guidelines when making and claiming an opportunity purchase by attaching all supporting documentation and bids demonstrating how the opportunity purchase meet or beat the State Price.

The Fair should obtain approval from DGS prior to the execution of any purchase order in excess of the Fair delegation threshold.

The Fair should comply with state rules and complete the necessary Standard Form 213 or 210 for service contracts, regardless of the amount.

CASH RECEIPTS

Our office noted the Fair increased its exposure to loss by not always depositing cash receipts on a timely basis. F&E's APM Section I, 2.331, Deposit of Cash Receipt, states that the Fair is to make bank deposits the next business day whenever cash exceeds \$500, or cash and checks in the aggregate exceed \$5,000. Moreover, no collection may remain undeposited for more than fifteen working days. The Fair allowed various cash deposits exceeding \$5,000 to remain undeposited for up to 14 days.

Based on the review of cash receipts, we noted the Fair does not always record the cash collections at the date they are actually received. We noted the recording date is the date the accounting department receives the money rather than the actual date collected for cash collected for satellite wagering, polo lounge, and lotto. For instance, the cash collection for the satellite wagering activity in May 5, 2007 totaling approximately \$5,162 was not receipted until May 10, 2007. According to Section 2.332 of the APM states, record collected cash receipts daily in the receipts journal.

Recommendations

The Fair should ensure it deposits cash receipts within the timeframes specified in the APM. The timely deposit of cash receipts helps minimize the risk of loss or other misuses of the cash or cash equivalents collected.

The Fair must ensure that all revenues are receipted in the receipt journal at the time they are received and prior to making bank deposits pursuant to the APM Section 2.332.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



October 31, 2008

Mr. Ron Shackelford, CPA, Audit Chief
Department of Food & Agriculture
1220 "N" Street, Room 344
Sacramento, CA 95814

Dear Mr. Shackelford:

This is in response to Management Report 08-019, Reportable conditions of the 2007 Fresno Fair Records.

LACK OF INTERNAL CONTROLS FOR THE SWAP MEET

1. The Fair will consult with the State Attorney General's Office for direction in handling the investigation performed by the Sheriff Office. The Fair will consider competitive bidding for this contract.
2. The staff from the Fair Administration Office will document and follow all established procedures. Ticket seller amounts will be verified and the reports will be signed by both parties.
3. The Fair will require the Swap Meet to use pre-priced tickets for which the fair maintains inventories and controls the issuance for use.
4. Management – long-term contracts. The Fair will establish a current, valid, written contract with its Swap Meet partner signed by both parties. Contracts will adhere to F&E's requirements. The Fair will maintain contracts with updates & contractor annual performance evaluation.
5. The Fair will adhere to the term of a contract. Procedural changes will be/have been made to ensure adherence to contract terms.
6. The Fair will properly account for improvements to demonstrate that the obligations are being met by both the Fair and the Swap Meet Contractor. Restricted accounts/fund will be established and be reflected at 12/31/08.

COURTESY AND CREDENTIAL PASS ADMISSIONS

7. Courtesy issued passes - 4% limit specified with Food and Agriculture Code. Distribution/presentation will be documented. Printouts available from Admit One Products will detail the recipients and passes used (presented). 2008 Fair contracted with Admit One Products prior to the release of 2007 audit recommendations. Beginning with 2009 Fair, passes will be ordered/issued as Courtesy or Credential.
8. Courtesy & Credential logs – requisitions are entered into system. Ticket numbers will be utilized to differentiate pass type. Printouts available from Admit One Products will detail the recipients (issued) and passes used (presented).



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ACCOUNTING FOR FIXED ASSETS

9. Fixed Asset costs are being captured in Construction in Progress (#190). Projects not completed will be detailed at 12/31/08.
10. Capitalize (completed) project information – total costs, establish life, and depreciation at 12/31/08. Journal amounts from Construction in Progress to appropriate fixed asset account and depreciation for the fiscal year.

CASH ACCOUNTS

11. The Fair will follow GAAP by adhering to a year-end cut-off. Checks will be recorded in period issued and outstanding payables at year-end will be reflected as such.
12. Monthly reconciliations for all cash accounts will be done in a timely fashion with correcting entries prepared if necessary. The name of the preparer, reviewer and date prepared will be on the reports.
13. Beginning July 1, 2008, outstanding checks issued more than 1 year prior will revert to the appropriate cash account.

GENERAL LEDGER DETAIL

14. The Fair will ensure that its general ledger liability accounts have proper credit balances at year-end. Any discrepancies will be researched and corrected prior to closing books.
15. Full disclosure of revenue and expense amounts is now being followed. Procedural changes have been made.

ACCOUNTS RECEIVABLE

16. The Fair will establish an allowance for doubtful accounts for the receivables from 2003-2006 that have been deemed unlikely to collect.
17. The Fair will ensure that its general ledger accounts for receivables have proper debit balances at year-end. Any discrepancies will be researched and corrected prior to closing books.
18. Discharge from Accountability is/will be prepared for each item greater than \$250 and submitted to F&E.

STANDARD AGREEMENTS

19. The Fair will comply with F&E's Contracts Manual Section 1.5 to ensure approval by F&E for all multi-year agreements amount over \$75,000.
20. The Fair will obtain bids for contracts over \$5,000.
21. The Fair will notify F&E in writing for any sponsorship agreement.
22. The Fair will comply with SAM Section 8032.4 and ensure cash receipts are deposited in tact.

ACCOUNTING FOR FOOD AND BEVERAGE EXPENDITURES

23. The fair will ensure food and beverage expenditures are properly justified and documented in accordance to APM Section 2.85 and 2.86 prior to processing payment.

AUTOMATED TELLER MACHINES

24. The Fair will identify the four ATM machines as property of the State.
25. The Fair will establish a lease agreement for any ATM rental and it will stipulate the terms of the lease and revenue allocation.

GENERAL EXPENDITURES

26. Vehicle Accident Report (Form 270) will be filed with Department of General Services within 48 hours should a State vehicle be involved in an accident.

JUNIOR LIVESTOCK AUCTION (JLA) – Accounting staff has been working on this and documenting procedures/cutoff dates. The service provider has been contacted regarding Form 1099 requirements.

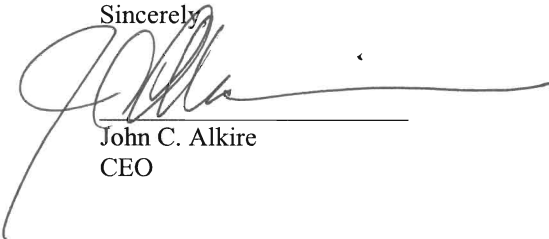
27. JLA Accounts Receivable – amounts with questionable items noted will be prepared at 12/31/08.
28. Audit trail for JLA will be maintained and prepared prior to closing Account No. 251 at 12/31/08.

PERSONNEL PROCEDURES

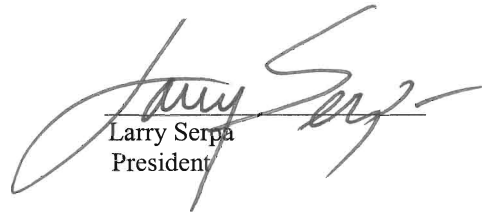
29. The Fair will endeavor to have permanent employee not carry more than 640 hours of annual leave. Employees with excess balances will be encouraged to take time off.
30. The Fair will comply with the Constitution of the State of California and ensure that temporary employees do not work in excess of six months in a calendar year. Also, the Fair will not work temporary employees in excess of 119 days in a calendar year.

Please contact us if you have questions or need more information.

Sincerely,



John C. Alkire
CEO



Larry Serpa
President

Cc: Michael Treacy, Director, Fairs & Expositions

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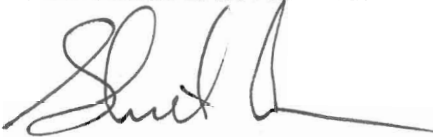
CDFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 21st DAA, The Big Fresno Fair, for its review and response. We have reviewed the response and it addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between April 28, 2008 and May 9, 2008. My staff met with management on May 9, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



for Ron Shackelford, CPA
Chief, Audit Office

May 9, 2008

REPORT DISTRIBUTION

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1	Chief Executive Officer, 21st DAA
1	Director, Division of Fairs and Expositions
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